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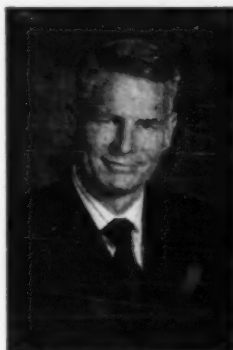


Pillar

FROM THE OFFICE OF THE SUPERINTENDENT OF
FINANCIAL INSTITUTIONS CANADA (OSFI)

OSFI welcomes two new faces

OSFI recently welcomed Mark White to the role of senior director, Capital, Accounting and Research Division. Mr. White joins OSFI from RBC Capital Markets where he was managing director and global head of the Strategic Transactions Group, in which capacity he led an international structured finance team. Prior to RBC, he was a partner at Ernst & Young Management Consultants and Donahue Ernst & Young, Barristers & Solicitors.



Mark White
Senior Director—OSFI

According to Mr. White: "When working previously as a lawyer and banker, I had positive interactions with OSFI and received an introduction to the important and diverse role that OSFI played in bringing on key initiatives such as Basel II. I am hopeful that my background will enable me to contribute to OSFI and its goal of contributing to the safety and soundness of Canada's financial institutions."

Late last year, Stuart Wason joined OSFI as senior director,

Actuarial Division. Prior to his arrival, Mr. Wason was senior vice-president, Assuris; president, Stuart Wason Consulting Limited, and director and principal in the Mercer Group of Companies. He brings to OSFI extensive experience in financial and risk management in the life insurance industry and with insurer solvency frameworks. A past president of the Canadian Institute of Actuaries, he currently chairs the Solvency Subcommittee of the International Actuarial Association.



Stuart Wason
Senior Director—OSFI

"For many years, I have been active in the actuarial profession on the topic of insurer solvency assessment," indicates Mr. Wason. "I was very excited when I heard about the opportunity within OSFI since it aligns so well with my interests and experience. The icing on the cake for me is the opportunity to work with so many dedicated individuals within the Office."

Both are based in OSFI's Toronto office.

OSFI Clarifies its Role in ABCP Issue

On April 22, 2008, the Office of the Superintendent of Financial Institutions (OSFI) further clarified its role in the ongoing Asset-Backed Commercial Paper (ABCP) issue. In a briefing to news media, Superintendent Julie Dickson stated that the freezing of the non-bank ABCP market in Canada has rightfully led to a lot of questions.

Ms. Dickson said, "It is clear that capital requirements on Canadian banks did not drive the uniqueness of the non-bank ABCP market in Canada. There are a number of factors that contributed to the current situation and I believe a fulsome discussion and review are critical. OSFI looks forward to participating in these discussions." She added, "It is important to get to the bottom of what happened and OSFI fully supports these efforts and will continue to provide input into this process".

To view the associated press release and ABCP backgrounder, visit the OSFI Web site at: www.osfi-bsif.gc.ca

OSFI Releases 2008-2009 Report on Plan and Priorities

On behalf of the Office of the Superintendent of Financial Institutions Canada (OSFI), I was pleased to present our Report on Plans and Priorities for 2008–2009.

As Canada's federal prudential regulator, OSFI has a mandate to protect the rights and interests of depositors, policyholders and pension plan members, while allowing financial institutions to take reasonable risks and compete effectively.

The financial services industry is dynamic – rapidly changing both in Canada and around the world. Over the past several months there has been turbulence in global financial markets with which has come increased risk to financial institutions globally, including in Canada.

OSFI has established a long-term priority that involves focusing on the changing risk environment, by enhancing our ability to identify risks and their impact on financial institutions and pension plans, and using that increased understanding to adjust supervisory and regulatory expectations.

The priority involves increasing our surveillance of markets to better determine the impacts of events on financial institutions. In concert with this initiative, OSFI is also planning more comparative reviews. We will benchmark how banks manage liquidity risk, the rigour of their stress testing, the robustness of their valuation processes, as well as their securitization activities. In the life insurance sector, commercial real estate activities will be reviewed, and in the banking sector, US commercial real estate activities will be reviewed.

In support of its prudential mandate, OSFI has several ongoing activities. These include: accurate risk assessments of financial institutions and pension plans, and timely, effective intervention and feedback; promoting a balanced and relevant regulatory framework of guidance and rules that meets or exceeds international minimums; and a prudentially effective, balanced and responsive approvals process. In the longer term, OSFI will continue work to strengthen Canada's system of prudential regulation.

Related to this goal is OSFI's continued participation in international discussions, including the Financial Stability Forum, the Basel Committee on Banking Supervision, and the International Association of Insurance Supervisors, to identify and discuss events arising from global financial market turmoil.

In addition, OSFI will continue its support for domestic implementation of the Basel II Capital Accord; preparations for the move from Canadian GAAP to International Financial Reporting Standards (IFRS); development of a more risk-based capital framework for life insurance companies over the next five years; and the enhancement of OSFI's ability to perform in an increasingly complex pensions market.

As well, the International Advisory Group will continue to contribute to international financial stability by assisting emerging market economies in enhancing their regulatory and supervisory systems. The Office of the Chief Actuary will provide ongoing expert valuation and advice for actuarial reports including the Canadian Pension Plan (CPP), Old Age Security Program (OAS), and federal public sector employee pension and insurance plans established under various Acts.

The 2008–2009 Report on Plans and Priorities identifies some new initiatives and ongoing responsibilities that form the core elements of OSFI's program delivery, and will enable OSFI to maintain its position as a world-class prudential regulator into the future. In meeting these goals, OSFI will continue to contribute to a strong and prosperous Canadian financial system, a system in which Canadians can put their reliance and their trust.



Superintendent
Julie Dickson

To view the complete Plan and Priorities document, visit the OSFI Web site at: www.osfi-bsif.gc.ca

Guideline E-17 - Background Checks on Directors and Senior Management of Federally Regulated Entities (FREs)

OSFI has released the final version of Guideline E-17 – Background Checks on Directors and Senior Management of FREs, which sets out principles to assist FREs in the establishment of policies and procedures to conduct assessments of the suitability and integrity of their directors and senior management. While FREs already have varying policies and procedures to assess the suitability and integrity of their senior management, this Guideline seeks to ensure that such practices are sufficiently robust across FREs.

The proposed framework will help ensure that OSFI guidance remains consistent with international developments. Several international organizations, including the Basel Committee on Banking Supervision, the International Association of Insurance Supervisors and the Financial Action Task Force on Money Laundering, have issued core principles and recommendations that require directors and senior officers of financial institutions to be regularly evaluated with respect to suitability and integrity. These requirements represent an internationally accepted benchmark of minimum supervisory standards against which the quality of a country's prudential supervision system can be measured and assessed. Regulators in other comparable jurisdictions have either issued guidance on, or have procedures in place relating to, the assessment of the suitability and integrity of directors and senior officers of regulated entities.

This final Guideline includes the following changes from the draft version posted on May 30, 2007:

- Rather than requiring FREs to conduct searches of civil proceedings, attestation from senior management that the directors have not been held liable in any civil proceeding related to financial or business misconduct, fraud or mismanagement will be sufficient to meet the requirements of the Guideline; and
- In order to provide additional clarity, the title of the Guideline has been changed from "Assessments of Responsible Persons by FREs" to "Background Checks on Directors and Senior Management of FREs".

There is a one year transition period for compliance with the final guideline. As such, all FREs are expected to be compliant by January 31, 2009. Questions concerning the final guideline should be addressed to Laural Ross by telephone at (613) 990-6972, by email at laural.ross@osfi-bsif.gc.ca, or by facsimile at (613) 998-6716.

To view the complete document, visit the OSFI Web site at: www.osfi-bsif.gc.ca

Notice to Federally Regulated Entities on AML/ATF Listings

Please note that, effective immediately, Anti-Money Laundering/Anti-Terrorist Financing (AML/ATF) notifications will be issued by OSFI's Compliance Division in the format of an advisory rather than a signed letter from the Assistant Superintendent, Regulation Sector. This new process will allow OSFI to advise Financial Institutions of changes to the lists in a more efficient manner.

MCCSR Advisory Committee's Vision Paper

In June 2007, the MCCSR Advisory Committee (MAC) published for comments its Canadian Vision for Life Insurer Solvency Assessment.

Since no comments were received, the MAC approved and sent the paper to OSFI as a recommended solvency framework. OSFI has reviewed the paper and agrees with the overall vision it presents. The MCCSR Advisory Committee is therefore now releasing its final vision or structural outline for new principles-based solvency financial requirements for Canadian life insurers to regulators and the industry. These are outlined in the paper, Canadian Vision for Life Insurer-Solvency Assessment. The paper calls for regulatory asset requirements to be calculated on two bases – a Target Asset Requirement (TAR) and at a minimum level (Minimum Asset Requirement or MAR).

All insurers would use the Standard Approach, a factor or formula based approach, to calculate the MAR. The most sophisticated method of calculating TAR would be the Advanced Approach, which uses models integrated with the insurer's risk management system. The Advanced Approach will be made available only to those...

(cont'd page 4)

insurers that can demonstrate that they have robust controls in place and that they meet minimum standards set by the regulators.

After having developed Key Principles and a Vision Paper, the MAC is now looking closely at the development of criteria and standards for the use of internal models.

Furthermore, as a response to the anticipated move to international accounting standards (IFRS) that will likely modify the principles for setting insurance liabilities when phase II of IFRS 4 will be implemented, OSFI, AMF and Assuris have created a working group to update the current approach to measuring life insurance regulatory capital requirements for the risks being materially impacted by these new accounting standards (mainly credit and market risk). We intend to have the new methodology ready for implementation at the same time as IFRS (for insurance contracts and liabilities) is implemented in Canada (2011 or later).

This also includes the possible revision and calibration of the approach at a later date based on the additional information provided by the development of more advanced approaches when available.

Information about the progress of this project will be communicated to the industry on a regular basis. Questions may be directed to the Co-chair of MAC, Bernard Dupont at OSFI, 613-990-7797 or via e-mail at bernard.dupont@osfi-bsif.gc.ca.

To view the complete document, visit the OSFI Web site at: www.osfi-bsif.gc.ca

What's New Online (www.osfi-bsif.gc.ca)

Revision to the Minimum Capital Test Guideline Treatment of Other Subsidiaries and Affiliates

A minor adjustment has been made to the Minimum Capital Test (MCT) Guideline to remedy an inconsistency with other financial sectors.

Advisory - Aggregate limit on Tier 1-qualifying preferred shares and innovative instruments

This Advisory addresses changes to the aggregate limit on tier-1 qualifying preferred shares and innovative instruments.

Instruction Guide for Pension Plan Terminations

OSFI has issued a draft Instruction Guide to inform the pension industry of our filing and reporting requirements for a defined benefit pension plan that has terminated under the *Pension Benefits Standards Act, 1985*.

Actuarial Report on the Pension Plan for Federally Appointed Judges

The Office of the Chief Actuary report shows estimates of the deemed and actual contributions in accordance with the actual financing arrangement.

To view the complete documents, visit the OSFI Web site at: www.osfi-bsif.gc.ca

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The OSFI Pillar

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